

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

DOWN



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Prepared by:

Jerry J. Holdner, Jr.
Vice President of Market Research
e-mail: jholdner@voitco.com

Joshua Brant
Market Research Analyst
e-mail: jbrant@voitco.com
VOIT Real Estate Services

HIGHLIGHTS

- **Recovery in Full Swing** - The San Diego office market had another quarter of improvement to start the year, posting positive net absorption along with a 3¢ per square foot increase in asking rental rates. The market now has a total of 8.1 million square feet of positive absorption for the last five years. Vacancy continues to decrease and new deliveries are coming off of their best annual total of the past five years.
- **Construction** - Office deliveries have consistently been around 500,000-800,000 square feet a year over the past five years. This rate of construction is below the historical average and has helped to push vacancy down, and this year should fall within that range as well. The Irvine Company's 300,000 square foot speculative office building that broke ground at the start of 2014 signaled a maturation in the current recovery and other speculative office development has since broken ground as well.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 11.46%, a 7.2% decrease from last year's first quarter vacancy rate of 12.35%. Rancho Bernardo posted the lowest vacancy rate of any submarket with at least five million square feet of inventory at 7.11%.
- **Availability** - Direct/sublease space being marketed was 14.46% at the end of the quarter, a slight increase from the 14.23% availability rate of the previous quarter.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in San Diego County was \$2.43 at the end of the first quarter, a three-cent increase from the prior quarter and a solid fifteen-cent increase over 2014's first quarter rate of \$2.28. The record high rate of \$2.76 was established in the first and second quarters of 2008.
- **Absorption** - The San Diego office market posted 137,452 square feet of positive net absorption in the first quarter. Class A office continues to receive the lion's share of the recovery with the sector contributing 236,557 square feet of positive net absorption in the first quarter, while Class B and Class C both had negative net absorption to start the year.
- **Transaction Activity** - Sale and lease transactions totaled 2.6 million square feet in the first quarter, a decrease from the amount of square feet transacted in the prior quarter. This statistic can have some lag time in being reported, so look for figures to end up somewhat higher in the next report. Construction companies showed up more than once in the quarter's largest transactions and that is a sign of the recovery's expansion. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in the San Diego County was 5.3% in February 2015, down from a revised 5.8% in January 2015 and below the year-ago estimate of 7.1%. This compares with an unadjusted unemployment rate of 6.8% for California and 5.8% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 39,700 payroll jobs from February 2014 and February 2015, including 8,800 from professional and business services, and 8,200 from leisure and hospitality, 6,900 from education and health services, and 4,000 from government. No major sector recorded year-over job losses.
- **Overall** - Construction levels of new office product are still lower than 2005-2008, but the San Diego office market has now recorded four consecutive year-over-year increases in office square feet delivered. The markets' rental rates continue to rise and still have not reached levels seen during the last recovery. Rising rents may become a headwind to the rate of vacancy compression. The office market is steady but not explosive, and Class A office product has fared the best through this recovery. Unemployment rates have continued to trend downward since the peak in January 2010. As job creation continues and consumer confidence stabilizes, the office market recovery will continue.

FORECAST

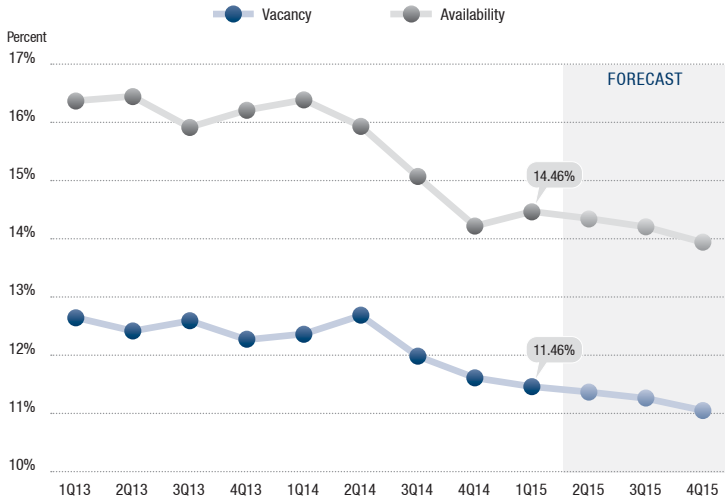
- **Construction** - The recovery of the San Diego office market has now matured to the point that we have multiple speculative office developments under construction. Local office development looks to remain lower than the levels seen during 2005-2008.
- **Employment** - We anticipate job growth of around 1.9%, or 24,600, jobs in San Diego County over the year. Look for sectors like construction, administrative & support, and transportation & utilities to lead the way for employment gains in 2015.
- **Lease Rates** - Expect the average asking lease rate to increase by 4% to 7% percent over the next four quarters.
- **Vacancy** - We anticipate vacancy to descend at a moderate pace in coming quarters, dropping to approximately 11.05%, by the end of the fourth quarter of 2015.

OVERVIEW

	1Q15	4Q14	1Q14	% of Change vs. 1Q14
Total Vacancy Rate	11.46%	11.60%	12.35%	(7.21%)
Availability Rate	14.46%	14.23%	16.38%	(11.72%)
Average Asking Lease Rate	\$2.43	\$2.40	\$2.28	6.58%
Sale & Lease Transactions	2,609,499	4,469,808	5,687,731	(54.12%)
Gross Absorption	1,844,458	2,243,305	1,457,664	26.54%
Net Absorption	137,452	747,304	(87,299)	N/A

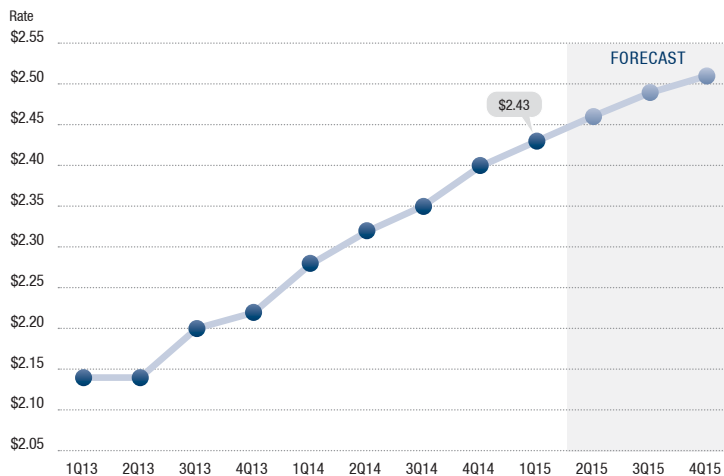
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



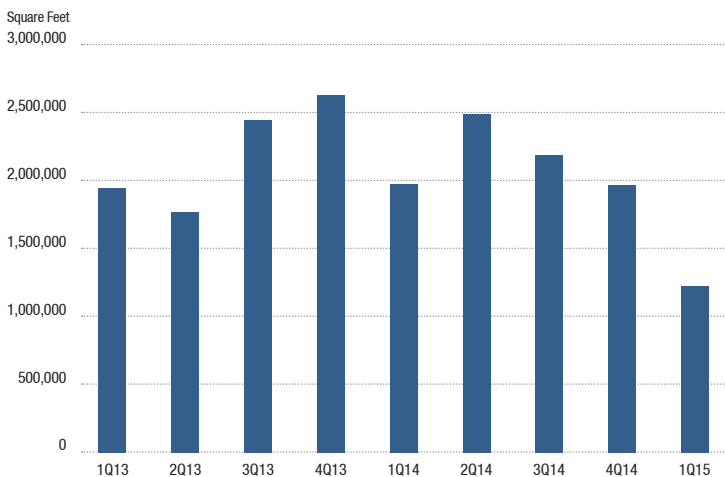
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



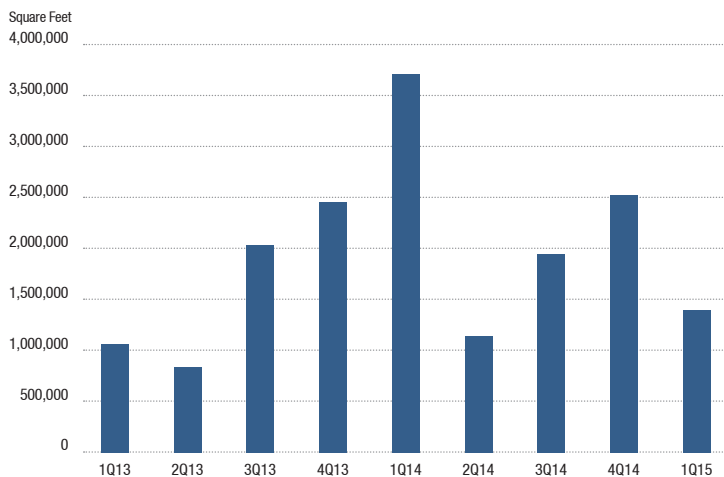
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



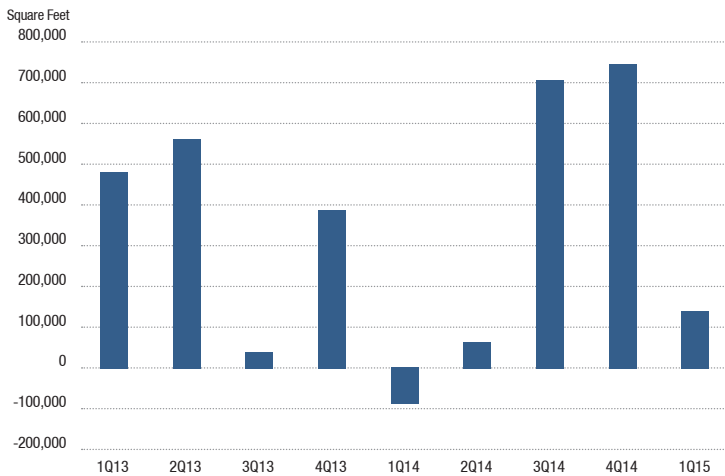
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



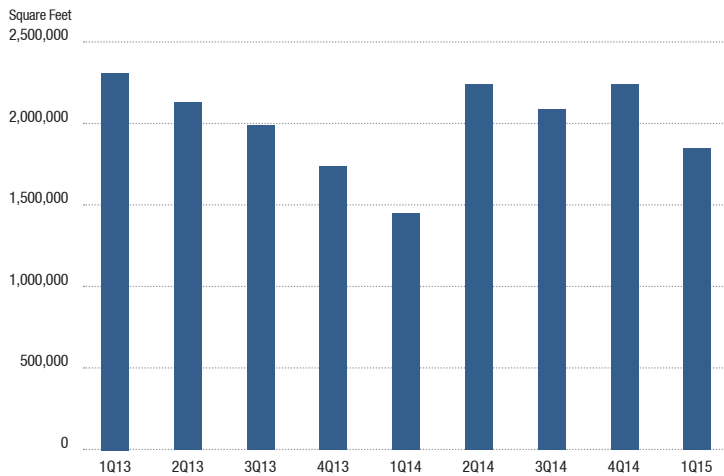
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY			VACANCY & LEASE RATES						ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2015	Square Feet Available	Availability Rate 1Q2015	Average Asking Lease Rate	Net Absorption 1Q2015	Net Absorption 2014	Gross Absorption 1Q2015	Gross Absorption 2014
Downtown													
Downtown	135	12,569,178	320,000	1,061,944	1,796,320	14.29%	2,219,673	17.66%	\$2.26	84,990	160,846	241,129	881,786
Downtown Total	135	12,569,178	320,000	1,061,944	1,796,320	14.29%	2,219,673	17.66%	\$2.26	84,990	160,846	241,129	881,786
Central													
City Heights / University	28	1,032,587	25,000	0	66,592	6.45%	78,922	7.64%	\$0.00	25,272	36,498	30,194	62,641
Coronado	6	125,233	0	0	0	0.00%	1,091	0.87%	\$0.00	0	0	1,986	1,800
Kearny Mesa	234	10,483,281	0	297,000	1,090,597	10.40%	1,529,348	14.59%	\$1.80	(61,548)	234,253	85,988	646,775
Mission Gorge	25	582,823	0	0	39,873	6.84%	49,192	8.44%	\$1.08	(1,147)	6,785	2,440	29,702
Mission Valley	125	6,979,371	0	375,830	717,073	10.27%	927,549	13.29%	\$2.26	8,947	(60,148)	142,117	600,730
Old Town / Point Loma	72	2,356,029	0	0	249,225	10.58%	288,151	12.23%	\$1.70	(11,786)	(52,365)	27,782	137,307
Park East	9	176,637	0	0	4,766	2.70%	4,766	2.70%	\$0.00	1,025	(3,644)	1,025	3,786
Rose Canyon / Morena	55	1,262,388	0	0	71,787	5.69%	85,946	6.81%	\$1.59	(6,568)	19,505	9,392	94,694
Uptown / Hillcrest	107	2,732,445	0	0	166,776	6.10%	280,693	10.27%	\$2.08	40,695	5,413	57,527	115,122
Central Total	661	25,730,794	25,000	672,830	2,406,689	9.35%	3,245,658	12.61%	\$1.98	(5,110)	186,297	358,451	1,692,557
I-15 Corridor													
Escondido	90	1,910,231	0	37,000	248,157	12.99%	272,514	14.27%	\$1.85	27,003	1,848	36,927	89,662
Poway	29	1,303,146	0	655,000	99,863	7.66%	107,795	8.27%	\$1.85	(14,743)	7,724	11,125	62,701
Rancho Bernardo	108	6,573,244	0	1,010,002	467,432	7.11%	652,210	9.92%	\$1.70	(18,331)	148,623	92,014	562,263
Scripps Ranch	49	2,652,362	0	1,186,200	448,544	16.91%	435,143	16.41%	\$2.17	8,561	56,785	21,637	225,510
I-15 Corridor Total	276	12,438,983	0	2,888,202	1,263,996	10.16%	1,467,662	11.80%	\$2.07	2,490	214,980	161,703	940,136
North County Coastal													
Carlsbad	151	5,840,084	177,269	459,000	1,069,683	18.32%	1,298,183	22.23%	\$1.59	(125,949)	97,202	92,727	618,503
Del Mar Heights / Carmel Valley	69	4,496,527	76,760	520,556	500,166	11.12%	625,428	13.91%	\$3.72	133,137	75,666	182,522	492,748
North Beach Cities	111	2,534,029	0	55,000	188,741	7.45%	222,945	8.80%	\$2.75	21,676	11,579	52,665	176,943
North County Total	331	12,870,640	254,029	1,034,556	1,758,590	13.66%	2,146,556	16.68%	\$2.78	28,864	184,447	327,914	1,288,194
North City													
Governor Park	19	863,777	0	0	161,804	18.73%	190,023	22.00%	\$2.54	(6,642)	(34,401)	25,861	45,704
La Jolla	53	1,611,374	14,750	0	210,630	13.07%	229,649	14.25%	\$3.24	31,203	(47,535)	69,854	69,306
Miramar	38	1,772,311	0	0	254,570	14.36%	278,525	15.72%	\$2.08	30,533	32,119	58,155	98,229
Sorrento Mesa	121	9,833,166	0	1,865,576	850,357	8.65%	1,318,881	13.41%	\$2.83	(61,237)	326,434	122,847	1,031,381
Sorrento Valley	24	690,576	0	91,980	58,898	8.53%	65,243	9.45%	\$1.30	21,114	7,042	31,581	50,274
Torrey Pines	43	2,703,699	0	0	191,497	7.08%	425,669	15.74%	\$3.85	(91,737)	14,732	143	93,724
UTC	85	8,109,645	305,952	390,770	1,211,871	14.94%	1,427,951	17.61%	\$3.65	143,413	147,178	359,198	1,228,499
North City Total	383	25,584,548	320,702	2,348,326	2,939,627	11.49%	3,935,941	15.38%	\$3.36	66,647	445,569	667,639	2,617,117
Southern & Eastern Areas													
Chula Vista	89	2,784,202	0	765,002	319,620	11.48%	393,638	14.14%	\$1.56	11,953	10,326	26,484	120,140
East County	152	3,696,742	0	194,200	271,013	7.33%	353,628	9.57%	\$1.10	(58,362)	53,220	17,663	194,560
National City	16	554,973	0	0	110,291	19.87%	117,816	21.23%	\$0.00	1,000	49,841	1,000	126,377
Otay Mesa	13	325,164	0	187,080	20,756	6.38%	20,756	6.38%	\$1.30	0	6,333	536	6,538
Southeast San Diego	10	391,848	0	0	69,756	17.80%	71,670	18.29%	\$0.00	34	(3,831)	808	2,109
Southern & Eastern Areas Total	280	7,752,929	0	1,146,282	791,436	10.21%	957,508	12.35%	\$1.38	(45,375)	115,889	46,491	449,724
Highway 78 Corridor													
Oceanside	58	1,331,127	0	59,832	191,542	14.39%	198,871	14.94%	\$0.00	7,562	2,026	13,050	91,884
San Marcos	36	1,322,784	0	1,514,139	187,981	14.21%	187,230	14.15%	\$0.00	(13,563)	34,159	13,119	80,810
Vista	49	1,215,692	0	138,350	221,314	18.20%	215,240	17.71%	\$1.50	10,947	21,866	14,962	73,655
Highway 78 Corridor Total	143	3,869,603	0	1,712,321	600,837	15.53%	601,341	15.54%	\$1.50	4,946	58,051	41,131	246,349
Class A	262	33,485,582	879,981	6,829,347	3,029,488	9.05%	4,271,321	12.76%	\$3.05	236,557	1,026,310	717,327	3,251,594
Class B	1,213	51,246,543	39,750	4,035,114	7,061,649	13.78%	8,380,381	16.35%	\$2.06	(59,995)	284,502	989,996	4,105,229
Class C	734	16,084,550	0	0	1,466,358	9.12%	1,922,637	11.95%	\$1.55	(39,110)	55,267	137,135	759,040
San Diego County Total	2,209	100,816,675	919,731	10,864,461	11,557,495	11.46%	14,574,339	14.46%	\$2.43	137,452	1,366,079	1,844,458	8,115,863

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a full-service gross basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
2173-2177 Salk Ave., 5962-5966 La Place Ct., 300 Rancheros Dr.	Carlsbad San Marcos	A	498,852	\$226.52	Brookwood Financial Partners, LP	Newport National Corporation
5855 Copley Dr.	Kearny Mesa	B	120,489	\$361.03	TIAA-CREF	Colony Realty Partners
1950 Camino Vida Roble	Carlsbad	B	121,541	\$160.44	Buchanan Street Partners	Pacific Realty Advisors
7911 Herschel Ave.	La Jolla	B	36,565	\$415.70	McCarthy Ranch MHF Real Estate Group	Angelo, Gordon & Co. Parallel Capital Partners
5010 Shoreham Pl.	Governor Park	B	27,340	\$548.65	DPR Construction	United Trust Fund

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
12220 Scripps Summit Dr.	Scripps Ranch	B	36,400	Jan-2015	Turtle Beach	Stockbridge Capital Group, LLC
8954 Rio San Diego Dr.	Mission Valley	A	34,856	Feb-2015	Kaiser	The Prudential Insurance Company of America
2365 Northside Dr.	Mission Valley	A	32,806	Feb-2015	Encore Capital Group	Kilroy Realty Corporation
1455 Frazee Rd.	Mission Valley	A	22,442	Jan-2015	U.S. Navy	Commonwealth Partners, LLC
5860 El Camino Real	Carlsbad	B	20,095	Mar-2015	Granite Construction	H.G. Fenton Company

PRODUCT TYPE

CLASS A

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

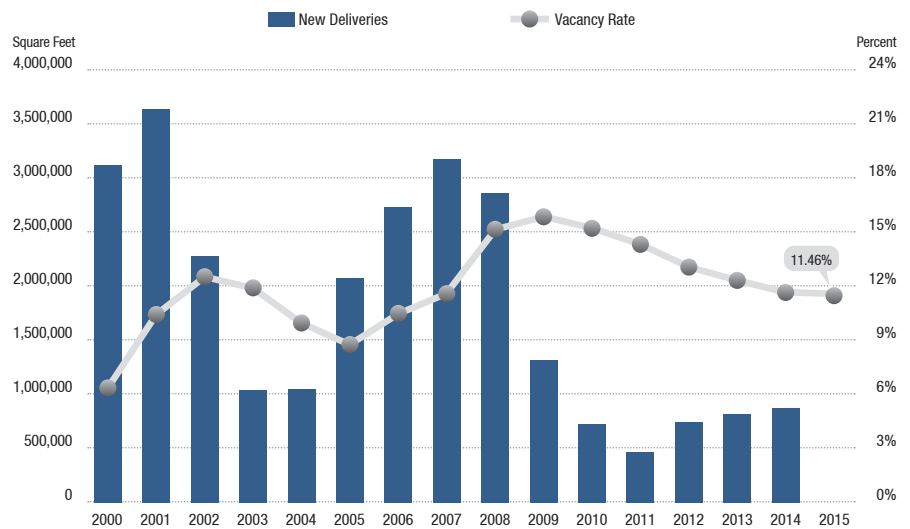
CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



Please Contact Us for Further Information

101 Shipyard Way, Newport Beach, CA 92663 949.644.8648 Lic.#01333376 www.voitco.com



Anaheim, CA
714.978.7880

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Las Vegas, NV
702.734.4500

Los Angeles, CA
424.329.7500

Newport Beach, CA
949.644.8648

Phoenix, AZ
602.952.8648

Reno, NV
775.771.9955

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505

San Jose, CA
408.885.9110